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Exporter Guide

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Report Highlights:

China's entry into the World Trade Organization and the accompanying decrease in tariff rates should auger well for U.S. companies looking to enter the China market in general and the south China market in particular. The opportunities in south China at the present time are in the Retail and HRI sectors.

Includes PSD changes: No
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The Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture has Agricultural Trade Offices (ATOs) in Guangzhou and Shanghai. All USDA promotional and marketing activities for China are managed by these offices. Exporters should evaluate whether to target one or all of these markets first. The greatest number of China's importers are located in either Shanghai or Guangdong Province. It is also productive to look at the Hong Kong market where there is also an ATO.

Section I. Market Overview

Southern China is one of the most economically vibrant places in China. Guangdong province, which borders both Hong Kong and Macau, is the main market for all of south China.

Guangdong province is home to some of China's richest consumers. According to 2000 national statistics, the per capita annual disposable income for urban residents in Guangdong province is only higher in the urban areas of Beijing and Shanghai: RMB 9,762 (\$1,182) versus RMB 10,350 (\$1,253) and RMB 11,718 (\$1,419) respectfully. Based on the same statistical source, the same applies to per capita living expenditures in urban areas. Only the spending in Beijing and Shanghai is higher than that of Guangdong. Consumer spending in Guangdong, in general, has remained sluggish since the early 1990s, but a pick up in economic activity points to the likely return to the mid-1990s trend of rising consumer spending.

Although Guangdong province has not received the same amount of publicity nor accolades as Shanghai and Beijing, international trade is an important part of the province's economy. For years it has been the main entry point for much of the country's food and beverage imports, thanks in part to a more flexible customs regime and to being the home of many importers. Several of China's largest imported food wholesale markets are located in Guangdong province, i.e. Lishui and Huadu for fresh fruit and Panyu for meats and other frozen food products. These markets over the years have witnessed thousands of containers of U.S. products pass through its doors. China's entry into the World Trade Organization (WTO) and the modifications to the trading regime that will inevitably follow might change this situation in the future, but such a change probably will not occur for many years.

Since imported food and beverage products have been in Guangdong province and the rest of southern China for a longer period of time than other regions of the country, the local consumers have a greater familiarity with imports. However, the existence and availability of these products has yet to have a major impact on dining habits. The consumers for their main meals of the day still prefer the local cuisine, but are open to the use of imported foods and beverages as ingredients in the cuisine. In addition, in terms of snacking in between these meals, a general willingness exists to try anything. However, for snacking, the general preference is for natural products with an emphasis on freshness.

In this market, American-origin foods and beverages are generally viewed as high quality products. American chicken parts, beef, dried and fresh fruits, french fries, nuts, and other products are often rated the best in the world by local consumers. However, this view does not apply to all American products. In some cases, other countries' products are seen as better, i.e. dairy products (New Zealand), wine (France), and whiskey (Great Britain).

Advantages	Challenges
American products are regarded as high quality by local consumers	Continued economic sluggishness dampens consumer spending
Import tariffs have fallen and will continue to decrease into the near future	Import tariffs on most high value consumer foods and beverages presently remain high
Southern China has several major urban centers with sizable populations	The average income of local consumers is much lower than in the West
Great interest in American products on the part of both local distributors and importers	Distribution tends to be a passive exercise, dependent more on relationships than salesmanship
Continued infrastructure expansion to support the distribution of frozen, chilled, and fresh foods and produce	Infrastructure to support frozen foods and produce is still limited
Often conscientious about maintaining good relations with overseas suppliers	Poor knowledge about international trade finance and its methods
Gift giving is essential, and luxury foods are preferred. Shoppers like new products for gifts, and for their treasured children	Stores often do not have trading rights and must rely on the stock available from the distributors who have such import rights
Many southern Chinese are very open to modifications of traditional local cuisine, using American ingredients	Other southern Chinese very closed-minded about new and different cuisines from the outside world

Section II. Exporter Business Tips

1. Doing the Deal

Regardless of whether you are currently exporting to China or just developing plans to try to enter the market, these tips might assist you in your efforts.

1.A. Finding Contacts

One of the best ways to acquire importer contacts is through the local U.S. ATO. One of the tasks of all ATOs overseas is to develop and maintain lists of local importers of food and agricultural products. To get such a list, you should contact the ATO in the targeted market and specify which products that you hope to export. Soon afterwards, a list will be sent to you. Other sources of importer contact lists are the local representatives of the various U.S. cooperator groups and the overseas offices of state

departments of agriculture. To get the contact details of these offices and representatives, you can either contact the ATO or the U.S. offices of the organization.

The most traditional method of acquiring importer contacts is trade show participation and this method can be effective in China. However, you should remember that not every trade show has high standards in regards to visitor quality. As in other lines of business, scam artists participate in the trade show business and some organizers have been known to use unscrupulous methods to inflate visitor numbers without regard to quality. To better learn whether a trade show is worth participating in, you should contact either the ATO or FAS Trade Show Office. The staff should be able to provide more objective information on the show and help you assess whether participation is worth your time, money, and effort.

Another method is to access FAS Trade Leads service on a regular basis. Trade Leads is a FAS service in which overseas importers contact local US ATOs and inform them of import needs. The FAS office in turn transmits this information to FAS home office in Washington D.C. and this office then posts this information for US exporters to read.

The Internet is another method of finding contacts, but at the present time may not be worth your efforts. Few importers currently have their own web pages and the few that have pages mostly use Chinese language on their pages. If you wish to use this method to find contacts, you are advised to use Chinese character display software and employ someone who can read Chinese to do your web surfing.

1.B. Communicating with Contacts

If you have not had a face-to-face meeting with a potential importer of your product, then do so. Visit the market. Visiting the market not only will help build trust between you and potential importer, but also help you better understand the market into which you want to sell. Many importers prefer face-to-face meetings. In addition, it is easier for you to visit the potential importer than for the importer to visit you. Getting a visa to visit the U.S. for most importers can be a long and cumbersome process with no guarantee of results.

Communicating with the potential importer only by fax or email, without ever meeting face-to-face, often is an ineffective method. Most importers pay little to no attention to unsolicited faxes and emails of suppliers wishing to sell them product. However, if this fax or email also includes your intention to visit the market, the targeted importer probably will be more responsive.

1.C. Negotiating with Contacts

In nearly all cases, price will be the main focus of any sales negotiations between you and the potential importer. The importer will strive to attain the lowest price possible from you. In addition, the potential importer in many cases will want you to pay for product promotion and gain exclusive distributorship for all of China.

While this situation should not come as any big surprise to you, something that you probably do not know is the size of your potential importer's margins. Importers in China often receive very high margins when they re-sell your product in China, ranging from 50 percent to three times the import price. The size of their usual margins probably should not be a big concern to you, but it is something to keep in mind while the potential importer lists excuses why your selling price is too high. To expedite and facilitate matters, it might behoove you during price negotiations to work backwards. You first discuss the potential importers' plans for your product and expected retail price in China, then discuss import price specifics. To help you use such a strategy, visiting local retail outlets to survey the market would be necessary before meeting the potential importer.

In some ways, paying for product promotion should not be a problem, because the most effective method is Point of Purchase (POP) literature and material. In all likelihood, you will already have POP literature and materials available, thus costs would be minimal. The only problem might be a need to translate some of these materials into Chinese. However, should your potential importer insist on you paying for an extensive media campaign which includes print advertisements and television commercials, then the importer probably does not really understand consumer products marketing and should be treated with some suspicion concerning their capabilities. In addition, should product promotion come up during negotiations, then you should not be afraid of using this desire as a part of your negotiations in order to get the best deal.

In regards to exclusive distributorship, you should not grant it until after the potential importer has proven his or herself. If the importer after the initiation of the business relationship becomes a major importer of your product, then giving the importer exclusive distributorship should not matter and under such circumstances could help enhance your business relationship. However, in the beginning, any distributorship rights given should be limited in geographic scope, i.e. a particular province or city, and for a limited trial period, i.e. six months to a year.

1.D. Payment

A sale really is not a sale if you do not get paid for your products. Receiving payment for products can be a problem in China and should not be neglected in any sales negotiations. The safest method of receiving payment is by Letter of Credit (L/C). However, due to China's underdeveloped financial system and some ignorance of international trade finance practices, even getting paid by L/C can be a problem. If you do arrange to get paid by L/C, you should only accept L/Cs from the Bank of China's Beijing, Shanghai, Guangzhou, or Shenzhen branches. These branches have the most experience with international trade finance and its practices, plus they are the least susceptible to outside interference. In addition, at least for the initial payment or two, you should get the L/C confirmed. While earning an importer's trust is important when selling to China, this trust should work both ways and allowing confirmation would help prove the importer's own sincerity in doing business with you.

Since China's financial system still is underdeveloped, some potential importers will prefer paying by telegraphic transfer (T/T) or direct bank transfer. Although accepting this method of payment is not advised, using it is not totally dangerous. If you do accept payment in this manner, you should insist on a deposit before shipment takes place. How much of a deposit is up to you, but it should be at least

enough to cover return shipment and any estimated demurrage charges.

In your payment arrangements, the potential importer most likely will ask for credit. If the potential importer agrees to L/C confirmation or a deposit for T/T payments, then credit should not be a problem. In some ways, giving credit is often a requirement for doing business in China. Credit usually is given to every participant along the distribution chain except the end consumer and under such circumstances many participants usually can not pay until their debtor pays their credit first.

Should the potential importer want credit, but finds your payment requests unacceptable. The deal most likely is not a real deal.

1.E. Other Important Matters

Consultants

Hiring a consultant can be helpful to export efforts, but care should be exercised. Before hiring one, you should decide how such a group or individual could assist your export efforts and explicitly communicate your needs and expectations to any group or individual you hire. In addition, many consultants have been known to gather free information from FAS and then try to sell it to exporters. If you hire a consultant, you should inform them that such behavior is unacceptable. Why should your company pay for anything that you are entitled to receive for free?

Trading Companies and Consolidators

U.S. trading companies and consolidators have an extra hurdle to overcome in trying to enter this market. The general attitude among most Chinese importers is that in order to get the lowest price possible they must deal directly with the producer. Many do not know or understand that many U.S. producers are content with their domestic market and do not want to bother with exporting. In addition, these same importers do not realize the cost saving through economies of scale purchasing which a trading company or consolidator can bring, because they export to many different markets and not just one. Although importers think they save money by dealing directly with a producer, they often order only a few containers at time and not necessarily at regular intervals which together is often more expensive in the long run. Given these circumstances, any trading company or consolidator trying to enter the market must realize that extra effort will be necessary.

Walking Away

If something seems wrong with a deal, you should not be afraid or ashamed to walk away from it. As in many other places around the world, not every potential importer is reliable and others do exist.

2. Regulations

China publishes extensive product standards for food and agricultural products. However, all standards are published in Chinese and English translations are not always readily available. Knowing the local standards for your product nowadays is a good idea, because strict enforcement of product health requirements in recent times has increased in China's many customs zones.

In the year 2000, China announced a new labeling law for imported food and beverage products for sale at retail outlets, but has not implemented and enforced this law immediately. The law requires printing Chinese language information directly onto the labels. For many years and even today, overseas exporters and Chinese importers simply placed small white stickers which gave product details in Chinese. Despite the lack of enforcement to date, the situation could change in the future and non-compliant products would be penalized.

For the most recent Food and Agricultural Import Regulations and Standards, please view the USDA FAS GAIN Report CH1041. This report is the FAIRS Report Working Index. A new FAIRS Report Working Index for 2002 should be published later in the year.

3. Barriers

The main trade barrier in China for many years has been high tariffs, but since China's official entry into the WTO, the country's tariff rates for food and agricultural products have started to decrease. These decreases are scheduled to continue over the next several years. However, since entry, health and quarantine problems for imported food and agricultural products at China's many ports have risen noticeably.

In southern China, Guangdong province in particular, a flexible customs regime reigned for many years. Not all of the country's import regulations were strictly enforced and sometimes tariff rates were negotiable, but this situation is expected to change as China adopts and implements WTO compliant rules and regulations.

If you wish to know the specific tariff rates for your product, you should contact any of the ATO offices in China.

Section III. Market Sector Structure and Trends

1. Retail Sector

Southern China's retail sector over the last decade has undergone a revolution from mostly small dried goods stores and wet markets to increasing dominance by modern style supermarkets and hypermarkets. In Guangdong province, the most economically developed province in southern China, the retail industry's 2001 food and beverage sales were an estimated \$6.56 billion (RMB 54.15 billion). In addition, the number of supermarkets, hypermarkets, convenience stores, department stores carrying food and beverage items, and other related retail outlets in Guangdong that year was approximately 1,920.

Despite the level of southern China's economic development in general and retail sector progress, less than five percent of the food and beverage products sold in convenience stores, hypermarkets, and supermarkets are imported. The most popular imports include: milk powder/infant formula, candy, snack foods, canned goods, and cookies. Sino-overseas joint venture products (foreign brands

produced in factories in China) account for a much larger share, in some cases over 40 percent. Product variety in local supermarkets is considerably lower than in the United States. The number of Stock Keeping Units (SKUs) in local supermarkets on average ranges between 3,000 to 10,000 per store, compared to 20,000 in a typical U.S. supermarket.

In Guangdong province, local supermarket managers say that their sales volume tends to be highest for products with a retail price below 30 RMB (\$3.63) per unit. U.S.\$1 = 8.26 RMB. The difference between local supermarket and hypermarket product purchase price and their own consumer retail price usually ranges from 8 to 15 percent. Their net profits after taxes, rent, labor, and other overhead costs often ranges between 0.8 and 1.5 percent. Centralized purchasing is the norm among convenience store, supermarket, and hypermarket chains in southern China. During most of the 1990s, each store in a chain tended to handle their own supplies separately.

At the present time, consumer spending remains sluggish in comparison to pre-1997 levels. However, some local industry participants feel that spending should pick up sometime in the near future. Food and beverage retail sales are usually their highest from Mid-Autumn Festival in September to Chinese New Year (January, February) and imported products still are regarded by the local populace as great gifts during the holiday seasons.

2. HRI Sector

Hotel and restaurant dining and catering in south China is big business. Thousands of outlets exist throughout the region. During the year 2001, in Guangdong province alone, hotel and restaurant dining and catering generated \$8.86 billion (RMB 73.19 billion) in sales turnover. Although a vast majority of the outlets only offer local cuisine, Western style food is gradually making a greater appearance. Overseas restaurant chains with outlets in southern China include: the Hard Rock Café, Kentucky Fried Chicken, McDonalds, and Pizza Hut.

Hotels and restaurants in southern China are very similar to retailers in that they mostly buy their imported food and beverage products from local distributors and importers. Buying directly from overseas is a rarity. For some locally produced food and beverage products, the hotels and restaurants will deal directly with the manufacturers. However, the smaller outlets often will simply buy their supply needs through retail stores and wet markets.

Western style foods and dining is slowly becoming more popular, but this growth primarily comes from the younger generation. The older generation tends to be more conservative in its dining choices. Despite this conservatism, the older generation is receptive to the use of Western ingredients for existing local cuisine, i.e. sweet corn and pine nuts. In addition, they are receptive to new local dishes which rely on imported ingredients.

3. Food Processing Sector

South China has a sizable and extensive food processing sector. A wide range of products are produced by south China's domestic processors, including: beer, bottled water, baby foods, candy, snack foods, breakfast foods, instant coffee, fruit juice drinks, vegetables, pork, and many others. In addition, south China has factories which are at least partly owned by some of world's largest food and beverage producers. Included are: Pepsico, Danone, Nestle, Quaker Oats, Coca Cola, etc.

Despite domestic products' general reputation of poor quality and packaging relative to many imported products, domestically produced food and beverage products in south China still tend to have a competitive advantage due to their lower prices. In addition, local food processors regardless of ownership have a bias towards single serve size products and packaging, a consumer preference supported by anecdotal evidence. This arrangement even seems to apply with multi-product packaging. For example, Danone, who in addition to producing consumer dairy products in China, produces cookies in bulk packets. Each cookie is individually wrapped and then packaged into one single plastic bag.

With the exception of the animal feed, building materials, furniture, and snack food industries, importing food and agricultural products to serve as ingredients for finished products is not widespread. This situation applies to many of the overseas invested joint venture operations as well. As with other sectors, price is the reason. A general manager of an overseas food processing joint venture once told ATO Guangzhou that he would like to use certain imported ingredients, but the price of importing these products is too high.

The snack food industry in southern China over the years has been one of the biggest importers of high value consumer goods, but their imports mostly consist of dried fruit and nuts. It was from Guangdong province that American pistachios, almonds, hazelnuts, and raisins were first introduced to all of China.

Section IV. Best High-Value Product Prospects

Almonds
Animal Feed Ingredients
Apples
Bakery Ingredients
Beef, Cuts and Offals
Candies
Celery
Cherries
Chicken Parts
Corn, Canned and Frozen
Dates
Figs
French Fries
Frozen Vegetables, various
Geoduck Clams

Hazelnuts
 Infant Formula/Milk Powder
 Juices and Concentrates
 Lobsters
 Logs and Lumber
 Maraschino Cherries
 Non-dairy cream and topping
 Other fresh fruits
 Oranges
 Pistachios
 Pork, Cuts and Offals
 Raisins
 Salmon
 Table Grapes
 Whey Power

Section V. Key Contacts and Further Information

For a list of Chinese government regulatory agencies in Beijing, Shanghai, and Guangzhou, please see FAS China report number CH1068, available on the FAS website www.fas.usda.gov.

For a list of import specialists in Beijing, Shanghai, and Guangzhou, please see FAS China report CH1069, available on the FAS website www.fas.usda.gov.

For further information about the south China market, please contact the ATO Guangzhou at the contact numbers below, or visit the ATO Guangzhou website www.atoguangzhou.org. Information about ATO Guangzhou events and activities are featured on the site.

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Appendix I. Statistics

A. Key Trade & Demographic Information, China

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%) (1)	\$9,945 / 25%
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Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%) (1)	\$1,948 / 33%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%) (1)	\$1,217 / 7%
Total Population (Millions) / Annual Growth Rate (%)	1,266 / 1.07%
Urban Population (Millions) / Annual Growth Rate (%)	458 / 5.3%
Number of Major Metropolitan Areas (2)	40
Size of Middle Class (Millions) / Growth Rate (%) (3)	110 / N.A.
Per Capita Gross Domestic Product (U.S. Dollars)	\$855.35
Unemployment Rate (%) (4)	3.1%
Per Capita Food Expenditures (U.S. Dollars)	\$236.65
Percent of Female Population Employed (5)	28.4%
Exchange Rate (U.S.\$1 = X.X local currency)	8.26 Yuan/RMB

Notes:

- (1) UNTrade database, Import Market Share BICO 3-Year Format
- (2) Population in excess of one billion
- (3) Middle Class growth not available
- (4) Official number based upon number of registered unemployed persons in urban areas
- (5) Percent against total number of women (15 years old or above)

B. Consumer Food & Edible Fishery Product Imports

Table B: Consumer Food and Edible Fishery Products China Imports of Agriculture, Fish, and Forestry Products (Millions of U.S. Dollars)									
	Imports from World			Imports from U.S.			U.S. Market Share (%)		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Consumer Oriented Products	978	1,491	1,948	291	470	636	30	32	33
Snack foods (Excl. Nuts)	29	43	64	8	9	16	28	21	25
Breakfast Cereals and Pancake Mix	2	3	3	1	1	1	19	18	17
Red Meats, Fresh/Chilled/Frozen	34	88	156	14	28	45	40	32	29
Red Meats, Prepared and Preserved	2	6	8	1	3	5	16	46	66
Poultry Meat	108	410	481	59	263	374	55	64	78
Dairy Products (Excl. Cheese)	95	168	224	16	23	21	17	14	9
Cheese	1	3	4	1	1	1	6	18	11
Egg and Products	1	1	10	1	1	2	19	14	15
Fresh Fruit	195	226	318	5	25	41	3	11	13
Fresh Vegetables	6	6	4	4	4	2	77	60	42
Processed Fruits and Vegetables	66	104	122	15	32	48	23	30	39
Fruit and Vegetable Juices	9	13	14	3	3	3	29	24	21
Tree Nuts	41	21	23	7	7	7	16	34	30
Wine and Beer	60	98	121	3	4	3	4	4	2
Nursery Products and Cut Flowers	11	17	21	1	1	1	4	7	7
Pet Foods (Dog and Cat Food)	1	1	1	1	1	1	10	3	9
Other Products	317	284	374	156	67	68	49	24	18
Fish and Seafood Products	671	890	1,217	56	55	80	8	6	7
Salmon	20	16	26	4	4	5	19	27	19
Surimi	9	8	12	3	3	6	34	35	47
Crustaceans	96	125	218	11	16	8	12	12	4

Groundfish and Flatfish	342	361	593	32	22	31	9	6	5
Molluscs	55	103	182	1	4	25	0	4	14
Other Fishery Products	149	277	186	5	7	5	3	3	3
Agricultural Products Total	7,624	7,128	9,945	1,814	1,636	2,460	24	23	25
Ag, Fish, and Forestry Total	10,259	10,940	14,878	1,995	1,835	2,680	19	17	18
Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office									

C. Top 15 Suppliers of Consumer Foods & Edible Fishery Products

Consumer Oriented Products Total - 400			
China's Imports			
Top 15 Ranking (Millions of Dollars)			
	1998	1999	2000
United States	291	470	636
New Zealand	32	91	146
Netherlands	43	90	129
Thailand	71	91	118
Japan	75	68	89
France	30	41	78
Philippines	70	50	77
Ecuador	66	65	74
Canada	22	45	71
Australia	26	41	64
Denmark	14	25	40
Ireland	6	20	35
Taiwan (est)	15	30	33
Great Britain	7	31	32
Chile	0.7	10	25
Other	210	322	302
World	978	1,491	1,948
Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office			

Fish and Seafood Products Total - 700			
China's Imports			
Top 15 Ranking (Millions of Dollars)			
	1998	1999	2000
Russia	277	258	346
Japan	88	185	137
India	15	12	87
United States	56	55	80
Canada	26	35	77
South Korea	39	35	67
Norway	9	19	43
Thailand	8	10	42
Mauritius	0.6	22	29
Spain	16	17	28
Taiwan (est)	3	9	27
New Zealand	15	12	26
Indonesia	8	5	23
Argentina	17	36	17
Uruguay	0.5	7	14
Other	93	171	174
World	671	890	1,217
Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office			